

AR78

University of Alberta Reference Library  
University of Alberta  
1-18 Business Building  
Edmonton, Alberta T6G 2R6



CANICO RESOURCE CORP.



Annual Report 2003



## A BIT ABOUT NICKEL LATERITES

Not all nickel deposits are created equal and this is especially true of nickel laterites. These are fairly recent secondary deposits of nickel, formed by the weathering of certain kinds of rocks under warm, wet conditions.

The resulting deposits contain varying amounts of nickel, iron, silica, magnesium and other elements. The combination of these elements in a deposit determines whether it can be processed at all, or if so, under what conditions.

Onça-Puma has characteristics that make it amenable to conventional nickel recovery by melting and separation of nickel and iron in a furnace. This process is a very successful, decades old technique used to yield nickel-iron products. The low grade version is ferronickel which is sent directly to stainless steel plants. A high grade product or matte must be sent to a smelter for further processing.

Canico expects to determine which product is most beneficial to the Company. It is likely to be ferronickel given the cheaper overall processing costs. This material can be sold around the world and is in great demand.



*Canico's wholly-owned Brazilian subsidiary is Mineração Onça Puma Ltda. whose logo is a silhouette of an Onça or Puma. The Onça is a spotted mountain lion, while the Puma is a uniform coloured, dark mountain lion. These cats are indigenous to the region of the Onça-Puma project.*

Canico holds a valuable nickel project. It is large, high grade and in a mining knowledgeable country. This presents Canico with a unique opportunity to become a mid-tier nickel producer. When successfully built and operating, Onça-Puma could place Canico amongst the world's top 10 nickel mining companies.



## CORPORATE OBJECTIVES FOR 2003-2004

- Complete scoping study for Onça-Puma
- Award feasibility study contract
- Negotiate bank advisory arrangement
- Complete resource definition
- Commence infrastructure enhancements
- Negotiate construction and production tax incentives

## It has been a remarkable year for your Company, aided in no small measure by world events.

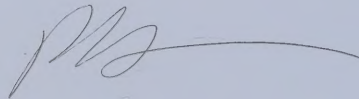
The election of Luiz Inacio Lula da Silva as President of Brazil has been embraced favorably by the world financial community, as his policies are garnering international approval. This is a country with a competitive tax structure and a mature mineral industry that has established a solid public confidence for the political environment in which we operate.

One need only to have followed the advance in the price of nickel over the last two years from just above U.S. \$2.00 per pound to just over U.S. \$5.00 per pound at time of writing, to appreciate the significance this has on how your Company is viewed today. This price advance reflects nickel's current undersupply, which is expected to accentuate in the next few years due to the growing demand in China, the expected improvement in the western world's economy, the underperformance of some nickel projects and the scarcity of new supply. That this coincides with the projected development time frame your Company is looking at has placed us on the radar screens in all sectors of the minerals industry.

Nature has also cooperated. As the exploration program progressed at Onça-Puma it soon became apparent that the resource base was going to be expanded beyond expectations and at a grade that should place us in a very competitive position on the world scene. This has been accomplished without access to the mineralized area that occurs within the Xikrin Indigenous Reserve.

While world events and the vagaries of nature are beyond our control, ultimately the performance of Canico is the reflection of the people behind it. In this regard the stewardship by Canico's management, with the backing of experienced professionals both in Canada and in Brazil, has led to the strong technical, financial and corporate advancements Canico has achieved and should further instill confidence that this team can take this major project forward.

I'd like to acknowledge with pleasure the additions of independent directors, R. Stuart Angus, Richard Colterjohn and Richard McCloskey as well as Inco's representatives Robert Horn and Colin McKenzie to your Board. These additions not only strengthen your Company's commitment to corporate governance but have also added talented, knowledgeable input to guide us to our goals.



Dr. Roman Shklanka  
*Chairman*

*October, 2003*

## There can be no doubt that the past year was very memorable...

We witnessed the transfer of ownership of the Onça-Puma nickel project to Canico; our raising of significant funds for exploration and development work; and the crystallization of expectations from those programs.

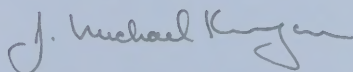
Reaching these milestones in any mining project is difficult, but to move it forward so aggressively and positively, is a testament to the hard work and dedication of Canico's employees. Their professional approach to the evaluation of Onça-Puma has yielded results that have pushed this project to a world class level.

As I write this note, there are over 70 staff and nearly 100 contract employees busy on various aspects of the project exploration and evaluation in Brazil and in Canada. Their work is striving to conclude a preliminary evaluation of the project this fall which will lead into a full feasibility study expected to be delivered late next year.

We anticipate this feasibility study to show that the project is robust and that its development would transform Canico into a mid-tier nickel producer. In fact, at the potential base case production scenario, Onça-Puma would be the largest nickel development in Brazil. To further this rare opportunity, we have already commenced discussions with potential lenders to the project.

Brazil and the state of Pará have been very pro-active in encouraging our nickel venture with discussions concerning infrastructure requirements and potential fiscal incentives. Discussions will continue in the next year given the likely size of the required investment.

Next year should be a pivotal period for Canico as it continues to prove the value of Onça-Puma. We will also continue building our team of construction and process engineers and operators in anticipation of making the transition from explorer to producer. In mine development, it's not often that you find a large, high grade deposit in a rising metals market. This can only make next year all that more exciting.



J. Michael Kenyon  
*President & Chief Executive Officer*

*October, 2003*

Onça-Puma has rapidly grown into one of the world's best grade, undeveloped nickel projects. Inferred resources have grown approximately 300% to a current total of about 100 million tonnes grading about 2.1% nickel (*see table*). Canico is part of the way through the process of evaluating this resource for production.

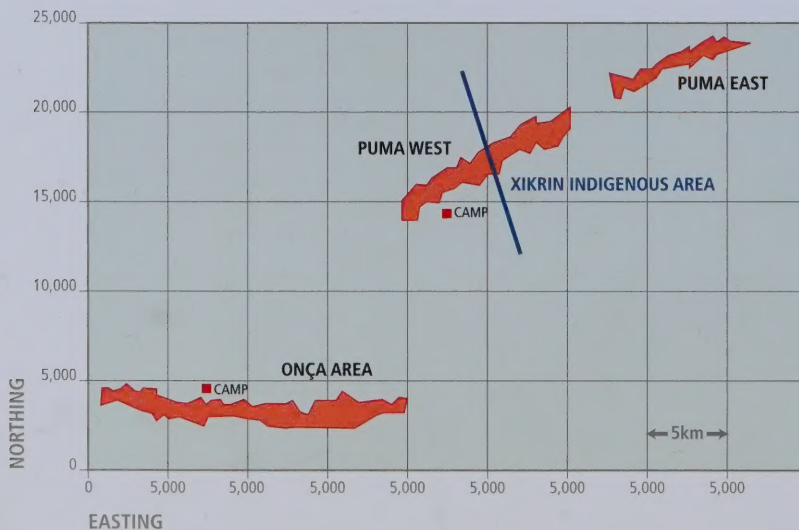
ONÇA - PUMA RESOURCE ESTIMATE<sup>(1)</sup> (August 2003)

Inferred Resources	Average Thickness M	Dry Tonnes X 1000	Ni % <sup>(1)</sup>	Co %	Fe %	Si/Mg <sup>(2)</sup> Ratio
Puma West						
West Ext.	4.4	952	1.85	0.041	28.57	1.73
Main Zone	8.8	15,945	2.39	0.043	18.90	1.82
East Plateau Zone	6.9	17,663	2.06	0.095	25.70	1.95
<b>Total Puma West</b>	<b>7.7</b>	<b>34,559</b>	<b>2.21</b>	<b>0.070</b>	<b>22.6</b>	<b>1.87</b>
Onça	5.3	69,854	2.12	0.123	21.77	1.98
<b>Onça-Puma Total</b>	<b>6.1</b>	<b>104,414</b>	<b>2.15</b>	<b>0.105</b>	<b>22.05</b>	<b>1.95</b>

(1) Cut-off grade — 1.5% Ni over 2 meter minimum width; S.G. 1.2g/cc.

(2) Canico will target a 1.85 Si/Mg ratio for production purposes.

ONÇA - PUMA DEPOSITS



## LOCATION

Canico's wholly-owned Brazilian subsidiary, Mineração Onça Puma Ltda., operates from office facilities in the town of Ourilândia do Norte in the State of Pará. This town and the nearby town of Tucumã have a joint population of about 35,000. These two towns just celebrated their 15th anniversary of founding, reflecting the recent development of the area.

These centres are about 25 km south of Onça-Puma and are the base for cattle and dairy ranches and small scale logging operations. They are serviced by daily flights from the city of Marabá.

## INFRASTRUCTURE

The State of Pará derives substantial revenues from mining and metals processing. Carajás is the world's largest iron ore mine and the State of Pará and Brazil rank second in the world aluminum production fostered by abundant and inexpensive hydro electric facilities and road and railway capacity.

The State of Pará and the government of Brazil offer tax incentives to companies to stimulate infrastructure development and employment so as to improve local and regional living standards. Discussions regarding these potential incentives for Onça-Puma have already begun.



*Mineração Onça Puma office facilities and compound in Ourilândia.*



*View of part of Onça ridge. Most of the area is used for cattle grazing.*





*Analysts review fresh core at Puma drill site.*



*Excavation of test pit showing channel samples taken from each wall for comparison with drill hole assays.*

## EXPLORATION

Mineração Onça Puma Ltda. presently employs a complement of about 60 geologists, engineers, technicians, accountants, administration and support staff in Ourilândia. Overall responsibility is under the guidance of Ronan Carvalho, project manager and site geological and exploration supervision is provided by senior geologist João Antonio da Silva.

A well-organized exploration/evaluation program has been carried out over the past year. Since commencement of diamond drilling in August 2002, more than 2,000 drill holes producing nearly 38,000 meters of core, have been completed. There are now 15 drill rigs working on the project. When we finish the current programs we will have drilled nearly 3,500 holes on the property.

These holes are necessary to define the boundaries of nickel mineralization and to establish measured and indicated resources and, in due course, proven and probable reserves in our feasibility study.

The tens of thousands of selected core samples from the project are prepared for analysis by Lakefield Geosol facilities in Ourilândia and sent for assay to their laboratory facilities in Brazil. Check assay programs are carried out in Australia and Canada. More than 41,000 assays have already been completed.

A number of comparative analyses are carried out through sinking pits over drill holes; 15 such pits have been finished and 4 more are planned. These provide assay comparisons, bulk density determinations and structure and composition checks for unit identification.

To support our exploration, we completed a number of surveys, including airborne photo surveys, surface surveys and ground penetrating radar surveys and we created new base maps. We also completed more than 310 kilometers of grid lines, all of which were carefully laid out, cleared and surveyed.



*High grade nickel core from Puma. The green mineral is a nickel silicate common in laterite deposits.*



*Sample preparation facility in Ourilândia run by Lakefield Geosol Limitada.*



*Reviewing core and procedures at Puma camp.*



*Environmental Base Line Study has been filed with the Brazilian authorities.*

## ENVIRONMENT

Canico is committed to conducting its business and activities in an environmentally responsible manner. To support the conclusions of the upcoming feasibility study, a base line environmental survey was carried out and a full Environmental Impact Statement is now underway. It will meet World Bank standards. Canico will follow operational practices which promote responsible development.

## ENGINEERING

Our feasibility study will be a formal, rigorous, detailed review of the nature and extent of Onça-Puma and how it can be developed and exploited profitably. This study is expected to be completed by the end of 2004. From this study we will consider a production decision and will establish optimum project parameters, including the amounts and forms of financing for the construction of a mine and process facility. We will also evaluate the amount of project debt which the project might carry. The study will be done to "bankable" standards and will

address all of the issues with which banks are concerned in considering project loans.

A bulk sample of the nickel laterite has been taken. Some 220 tonnes have been shipped to metallurgical pilot plant facilities in Norway for processing in a manner similar to that which could be expected under normal mining operations. The results will be included in the feasibility study.

Studies and reviews are also underway with respect to infrastructure. These include assessments for transportation routes, ports and storage facilities and road and power line rights-of-way. As well, potential plant sites have been identified and will be assessed.



*One of 20 sites selected for bulk sample excavation at Onça and Puma.*



*Bulk sample material prior to bagging for shipment to pilot plant facilities in Norway.*

## INTRODUCTION

The following discussion and analysis includes financial information from, and should be read in conjunction with, our consolidated audited financial statements for the year ended July 31, 2003. Our reporting currency is the Canadian dollar. Unless otherwise stated, all amounts of money in this discussion and in the consolidated audited financial statements are expressed in thousands of Canadian dollars, except per share amounts.

## RISKS AND UNCERTAINTIES

Our success depends upon a number of factors, many of which are beyond our control. Typical risk factors and uncertainties, among others, include political risks, financing risks, title risks, commodity price and currency exchange rate risks, operating and environmental hazards encountered in the mining business and changing laws and public policies. Risk factors are more fully described in our Annual Information Form.

Except for historical information contained in this discussion and analysis, the following disclosures are forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from those in such forward-looking statements. We assume no obligation to update our forward-looking statements to reflect results, changes in assumptions or changes in other factors affecting such statements.

## DESCRIPTION OF BUSINESS

We are a development stage company currently exploring and studying the development of the Onça-Puma nickel laterite deposits in Pará State, Brazil. The property consists of two separate deposits lying within 16 km of each other, namely Onça and Puma. We are a reporting issuer in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and trade on the TSX Exchange under the symbol "CNI".

## ONÇA-PUMA PROPERTY

On February 24, 2003, we acquired our 100% interest in the Onça-Puma property from Inco Limited ("Inco") in consideration of shares and warrants equal to 18% of our then issued capital. We issued Inco 4,727,674 common shares and 1,004,799 warrants with exercise prices ranging from \$1.50 to \$1.94 per share. Inco may only exercise such warrants in proportion to the number of certain other outstanding warrants which are exercised from time to time. Inco will be allowed to participate from time to time in

future equity financings, in order to maintain its then current equity interest in our outstanding capital.

If we place Onça-Puma into commercial production, Inco will purchase matte products, if matte is produced, and payments will be on a sliding scale based on the price of nickel; for products other than matte (such as ferronickel), Inco will receive 2.75% of the delivery price, as a sales and marketing commission.

The total property area is approximately 40,000 hectares and is located some 500 km southwest of Belem, the capital city of the State of Pará. Although the Puma deposit is a 23 km long ridge, currently we have access only to the 5.7 km (approx.) western portion ("Puma West") of the Puma deposit. The eastern portion lies within the Xikrin Indigenous Reserve Area and is not currently accessible by us. The Onça deposit is a 20 km (approx.) long ridge which lies to the southwest of Puma.

## EXPLORATION PROGRAM

In August 2002, we started an initial Phase I drill program of approximately 11,000 meters of large diameter core drilling on the Onça-Puma Property, spaced every 200 meters. The Phase I program was later expanded to 15,250 meters. During Phase I a total of 244 holes or 4,240 meters were drilled on Puma West and 485 holes or 11,010 meters were drilled on Onça. In May 2003, we commenced Phase II which includes approximately 35,000 metres of in-fill drilling, spaced every 100 meters. As of July 31, 2003, 306 holes or 6,194 meters have been drilled under Phase II on Puma West and 179 holes or 2,373 meters were drilled on Onça. We expect to complete Phase II drilling by December 2003. In August 2003, we commenced Phase III drilling which will include approximately 19,000 meters of in-fill drilling, spaced every 50 meters, in certain high grade areas of the deposits. We expect to complete Phase III drilling by March 2004. At the middle of October 2003, we had 15 drills operating on the property.

During the year ended July 31, 2003, we drilled a total of 1,214 holes or 23,817 meters on the Onça-Puma Property, for a total cost of \$2,306 and incurred \$553 in assaying costs. We expect to complete a scoping study in the fall of 2003. An environmental impact statement will be completed in conjunction with a feasibility study, scheduled for late 2004. During the current year, we spent \$278 and \$354 on environmental and engineering studies, respectively.

During the current year we spent \$6,582 on exploration and development work on the Onça-Puma Project, compared

to \$917 and \$249 spent in 2002 and 2001, respectively. During the 2002 period, exploration expenditures were primarily related to exploration surveys and studies, preparation of grid lines for the Phase I drilling program, and getting established in Brazil. Expenditures incurred in 2001 primarily include the costs associated with our option agreement to acquire Onça-Puma from Inco, which was then held by our subsidiary, Hastings Resource Corp. The following table outlines 2003 expenditures:

Drilling	\$ 2,306
Assaying	553
Exploration surveys and studies	411
Travel	233
Audit, tax and legal	188
Salaries and consulting	1,779
Exploration site operations	480
Engineering studies	354
Environmental studies	278
<b>Total</b>	<b>\$ 6,582</b>

In our prospectus dated September 20, 2002, we proposed two exploration programs based on us raising \$5,000 and \$15,000. During the year we completed three private placements and raised \$31,890. Based on the amount raised we significantly expanded our exploration program. Therefore a comparison of actual to the amount proposed in our prospectus has not been included, as it would not provide meaningful information.

## EXPLORATION RESULTS

In August 2003, we announced new inferred resource estimates for the Onça and Puma West deposits totaling 104,413,792 tonnes grading 2.15% nickel based on the 1.5% nickel cut-off grade and two meter minimum width used in resource estimates made by previous operators. Our resource estimates were prepared in accordance with the requirements of NI 43-101 by our independent Qualified Person, Hatch Ltd., as set out in their technical reports dated August 31, 2003. The resource estimate quoted here is a summary only and is subject to various assumptions and qualifications as set out in the Hatch reports. These reports may be found on the SEDAR website @ [www.sedar.com](http://www.sedar.com). Drill results from our drill programs have been described in our news releases and can be obtained from our website @ [www.canico.com](http://www.canico.com).

## FUTURE DEVELOPMENTS

We intend to continue to focus our attention on the Onça-Puma property during the upcoming year. The Phase II and III in-fill drilling programs commenced on the Onça

and Puma West deposits and are expected to be completed by December 2003 and March 2004, respectively. These two drill programs are intended to upgrade the current inferred resources to the measured and indicated categories. We intend to complete a scoping study in the fall of 2003 to establish order of magnitude parameters for building and operating a nickel mine at Onça-Puma. A full feasibility study on the Onça-Puma property is scheduled to be completed in late 2004. A cut-off grade has not yet been established for use in mine planning and financial modeling, and this, together with considerations such as strip ratios and mineral chemistry, will be important factors in determining the appropriate resources to be considered in the final feasibility study. In August 2003, we commenced an initiative to secure long term exclusive surface access to over 6,500 hectares, which encompass the Onça and Puma West deposits and certain plant site alternatives.

In August 2003, we shipped a 220 tonne bulk sample to Norway for metallurgical pilot plant testing, scheduled to begin in November 2003. We expect to have the results from this test work by January 2004. During the spring of 2002, we commenced work on our environmental impact statement ("EIS"). We expect to issue an EIS in conjunction with our feasibility study in late 2004.

In July 2003, our Brazilian subsidiary started to hire employees, rather than using independent consultants. At the middle of October 2003, it had 60 employees and during the upcoming year we expect our payroll costs to significantly increase.

## GENERAL AND ADMINISTRATIVE EXPENSES

Salaries and benefits expense for 2003 reflects the hiring of a complete senior management and engineering team for advancing the Onça-Puma project. The comparative seven month figures for 2002 are not comparable, as Hastings' management group did not join Canico until April 1, 2002, with the exception of our Vice-President and Chief Financial Officer who started February 1, 2002. During 2001 Hastings had no employees.

No management fees were paid in 2003 and 2001. Management fees during the 2002 period were paid to our former Vice-President, Corporate Development. The 2002 comparative figures include a termination payment of \$225.

For 2003, office and miscellaneous includes \$146 for rent, \$14 for transfer agent fees, \$43 for promotion and shareholder information, \$159 for stock exchange fees, \$29 for insurance, \$39 for directors travel, \$10 for recruitment and \$80 for other office costs. Office costs increased significantly compared to 2002 as a result of our move into larger office

facilities in May 2002, and the fees incurred to complete three private placements and to change our stock exchange listing from the TSX Venture Exchange to the TSX Exchange. The comparative figures for 2002 only include our results for the period February 6, 2002 to July 31, 2002 and therefore are not comparable to the current year. Most of these expenses were not incurred during 2001 as Hastings was a private company during that time.

Professional fees incurred during the current year relate to the acquisition of Onça-Puma, obtaining our TSX listing and other general matters. During the current year we incurred \$80 in financial advisory fees. The 2002 and 2001 period costs are primary related to the Canico and Hastings merger.

Travel costs increased significantly during the current year as we focused our efforts on the Onça-Puma project and expanding investor awareness of our activities. The comparative figures for 2002 only include our results for the period February 6, 2002 to July 31, 2002 and therefore are not comparable to the current year.

#### LIQUIDITY AND CAPITAL RESOURCES

Our operations consist of the exploration and evaluation of the Onça-Puma property. Our financial success is dependent upon the success of our efforts at Onça-Puma. This process can take many years and is dependent on several factors beyond our control. Our historical capital needs have been met by the issue of common shares. We do not have internal sources of funding to cover expenses.

During the current year, we completed three private placement financings for net proceeds, before expenses of the offerings, of \$31,890. A total of 4,488,927 and 7,600,000 common shares were issued at a price of \$1.50 and \$3.31 per share, respectively. Subsequent to July 31, 2003, we received approximately \$6,500 from the exercise of outstanding warrants.

During the current year, we spent \$6,582 on exploration and development work and \$586 on capital expenditures on Onça-Puma. This includes costs associated with drilling, assaying, surveying, engineering studies, environmental studies and project overhead. During the upcoming year we expect to spend a further \$27,077 on exploration and development work, completion of a feasibility study and capital expenditures.

As at July 31, 2003 we had working capital of \$28,658 including cash and cash equivalents of \$29,293. A significant portion of this amount will be expended on the exploration and development and capital expenditures outlined above. As noted, the exercise of outstanding warrants provided a further \$6,500 (approx.). Assuming our final feasibility study is positive, we will need significant further funding, in the form of debt and equity financing, to allow us to commence the construction of the Onça-Puma mine.



## CANICO RESOURCE CORP.

### Consolidated Financial Statements

#### INDEX

Auditors' Report to the Shareholders	iv
Consolidated Financial Statements	
Consolidated Balance Sheets	13
Consolidated Statements of Income and Deficit	14
Consolidated Statements of Cash Flows	15
Notes to Consolidated Financial Statements	16-30

TO THE SHAREHOLDERS OF CANICO RESOURCE CORP.

We have audited the consolidated balance sheets of Canico Resource Corp. as at July 31, 2003 and 2002 and the consolidated statements of income and deficit and cash flows for the year ended July 31, 2003, the seven months ended July 31, 2002 and the year ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2003 and 2002 and the results of its operations and cash flows for the year ended July 31, 2003, the seven months ended July 31, 2002 and the year ended December 31, 2001 in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis.



Chartered Accountants

Vancouver, British Columbia

August 31, 2003, except as to note 3(a)

which is as of September 16, 2003

CONSOLIDATED BALANCE SHEETS

July 31

(Expressed in thousands of Canadian Dollars)

	2003	2002
		(Restated note 2)
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$29,293	\$3,867
Accounts receivable	201	202
Marketable securities	0	114
Prepaid expenses	110	39
Deferred financing costs (note 8(d))	0	484
	29,604	4,706
<b>Restricted Cash</b> (note 13(a))	100	100
<b>Capital Assets</b> (note 6)	620	102
<b>Mineral Interests</b> (notes 5 and 7)	23,537	7
	\$53,861	\$4,915

**Liabilities**

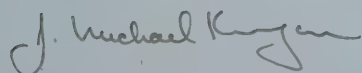
<b>Current</b>		
Accounts payable	\$946	\$462

**Shareholders' Equity**

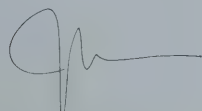
<b>Capital Stock</b> (note 8(b))	60,965	6,879
<b>Warrants</b> (note 5(a))	2,729	0
<b>Contributed Surplus</b> (note 9)	13	19
<b>Deficit</b>	(10,792)	(2,445)
	52,915	4,453
	\$53,861	\$4,915

Commitments (note 13)

Approved on behalf of the Board:



J. Michael Kenyon, Director



Jonathan Rubenstein, Director

See notes to consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT

(Expressed in thousands of Canadian Dollars, except per share amounts and number of shares)

	Year Ended July 31, 2003	Seven Months Ended July 31, 2002	Year Ended December 31, 2001
		(Restated note 2)	(Restated note 2)
<b>Income</b>			
Interest and other income	\$513	\$42	\$2
<b>Expenses</b>			
Exploration	6,582	917	249
Salaries and benefits	1,043	359	0
Office and miscellaneous	520	171	8
Travel	297	84	0
Professional fees	282	169	134
Management fees	0	256	0
Property investigation costs	0	0	39
Amortization	136	26	0
	8,860	1,982	430
<b>Net Loss for Period</b>	(8,347)	(1,940)	(428)
<b>Deficit, Beginning of Period</b>	(2,445)	(505)	(77)
<b>Deficit, End of Period</b>	\$(10,792)	\$(2,445)	\$(505)
<b>Loss Per Share</b>	\$ (0.44)	\$ (0.23)	\$ (0.08)
<b>Weighted Average Number of Shares Outstanding</b>	18,869,775	8,386,318	5,064,355

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Expressed in thousands of Canadian Dollars)

	Year Ended July 31, 2003	Seven Months Ended July 31, 2002	Year Ended December 31, 2001
		(Restated note 2)	(Restated note 2)
<b>Operating Activities</b>			
Net loss from operations	\$(8,347)	\$(1,940)	\$(428)
Items not involving cash			
Amortization	136	26	0
Compensation expense (note 9)	0	19	0
Gain on sale of marketable securities	(9)	0	0
<b>Operating Cash Flow</b>	<b>(8,220)</b>	<b>(1,895)</b>	<b>(428)</b>
<b>Changes in Non-Cash Working Capital</b>			
Accounts receivable	1	(156)	(30)
Prepaid expenses	(71)	(38)	0
Accounts payable	484	395	1
Short-term loan	0	(75)	75
	414	126	46
<b>Cash Used in Operating Activities</b>	<b>(7,806)</b>	<b>(1,769)</b>	<b>(382)</b>
<b>Investing Activities</b>			
Restricted cash	0	(100)	0
Proceeds from sale of marketable securities	123	0	0
Purchase of capital assets	(654)	(128)	0
<b>Cash Used in Investing Activities</b>	<b>(531)</b>	<b>(228)</b>	<b>0</b>
<b>Financing Activities</b>			
Proceeds from issuance of shares	33,763	943	639
Deferred financing costs	0	(484)	0
<b>Cash Provided by Financing Activities</b>	<b>33,763</b>	<b>459</b>	<b>639</b>
<b>Inflow (Outflow) of Cash</b>	<b>25,426</b>	<b>(1,538)</b>	<b>257</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>3,867</b>	<b>453</b>	<b>196</b>
<b>Cash Acquired in Merger of Canico Resource Corp. and Hastings Resource Corp. (note 5(b))</b>	<b>0</b>	<b>4,952</b>	<b>0</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$29,293</b>	<b>\$3,867</b>	<b>\$453</b>

Supplemental Cash Flow Information (note 12)

See notes to consolidated financial statements.

## 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

We were incorporated under the laws of the Province of British Columbia on November 24, 1980. On February 6, 2002, we acquired a 100% interest in Hastings Resource Corp. ("Hastings") in exchange for 5,000,000 shares. The primary asset of Hastings was an option to acquire a 100% interest in the Onça-Puma property located in Brazil, pursuant to its agreement with Inco Limited. As a result of the acquisition, control of Canico passed to the former shareholders of Hastings. Therefore, Hastings is deemed to be the acquirer for accounting purposes.

The acquisition is accounted for as a reverse takeover using the purchase method and accordingly, for financial reporting purposes, the net assets of Hastings have been included in the balance sheet at book values, and our net assets have been recorded at fair market value at the date of acquisition.

Our consolidated operations for the seven months ended July 31, 2002 are those of Hastings for the seven months ended July 31, 2002 and our results for the period February 6, 2002 to July 31, 2002. Capital stock represents our authorized and issued capital and deficit is that of Hastings, the ongoing operating company. Hastings' year-end was previously December 31, but with the completion of the reverse takeover, it has been changed to July 31 to conform with our year-end.

## 2. CHANGES IN ACCOUNTING POLICIES

Effective August 1, 2002, we adopted the new recommendation issued by the Canadian Institute of Chartered Accountants regarding the expensing of exploration expenditures as incurred. Under the new rules, costs attributable to property acquisition are capitalized while exploration expenditures on the property can only be capitalized once mineral reserves have been established. Previously, we had been capitalizing all exploration expenditures.

This change has been adopted retroactively, and the 2002 and 2001 financial statements have been restated accordingly. The effect of this change on the balance sheets is mineral interests decreased by \$917 and \$249 and deficit increased by \$917 and \$249, as at July 31, 2002 and December 31, 2001, respectively. The effect of this change on the statements of income is exploration expenses and net loss increased by \$917 and \$249 for the seven months ended July 31, 2002 and for the year ended December 31, 2001, respectively.

## 3. SIGNIFICANT ACCOUNTING POLICIES

## (a) Principles of consolidation

These financial statements include our accounts and our wholly-owned subsidiaries, Hastings Resource Corp. (a Canadian company), Canico do Brasil Mineração Limitada (a Brazilian company) and Mineração Onça Puma Ltda. (a Brazilian company). All significant inter-company balances and transactions have been eliminated.

Subsequent to July 31, 2003, Canico do Brasil Mineração Limitada and Mineração Onça Puma Ltda. merged to form Mineração Onça Puma Ltda.

## (b) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and would impact future results of operations and cash flows.

## (c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and term deposits with maturities of less than one year at the date of acquisition.

## (d) Marketable securities

Marketable securities are recorded at the lower of cost and market value.

## (e) Amortization

Amortization of capital assets is calculated on the following bases and annual rates:

Buildings	- 4%	Straight-line
Vehicles	- 20%	Straight-line
Machinery and equipment	- 10%	Straight-line
Computer hardware	- 20%-30%	Straight-line
Furniture and fixtures	- 10%-20%	Straight-line
Computer software	- 100%	Straight-line

Additions during the year are amortized at one-half the annual rates.

## (f) Exploration expenditures

Effective August 1, 2002, we revised our accounting policy for mineral property costs (note 2), whereby we record the mineral interest at acquisition cost and expense exploration expenditures as incurred on the mineral interest. Once a mineral reserve has been established, all development costs will be capitalized and charged to operations on a unit-of-production method based on estimated recoverable reserves.

## (g) Realization of assets

The investment in and expenditures on mineral interests comprise a significant portion of our assets. Realization of our investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal.

## (h) Foreign currency translation

Amounts recorded in foreign currency are translated into Canadian dollars as follows:

- (i) Monetary assets and liabilities at the rate of exchange in effect as at the balance sheet date;
- (ii) Non-monetary assets and liabilities at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and
- (iii) Revenues and expenses (excluding amortization which is translated at the same rate as the related asset), at the average rate of exchange for the period.

Gains and losses arising from this translation of foreign currency are included in the determination of net loss.

## (i) Stock-based compensation plans

Effective January 1, 2002, we adopted the recommendation issued by the Canadian Institute of Chartered Accountants regarding accounting for its employee stock option plans. Options granted to employees are accounted for using the intrinsic method where compensation expense is recorded only when options are granted at discounts to market. Options granted to non-employees are accounted for using the fair value method where compensation expense is calculated using the Black-Scholes options pricing method.

## (j) Loss per share

Loss per share computations are based on the weighted average number of common shares outstanding during the period. Fully diluted loss per share has not been calculated as the effects are anti-dilutive.

#### 4. FINANCIAL INSTRUMENTS

##### (a) Fair value

The carrying values of cash and cash equivalents, accounts receivable, restricted cash and accounts payable approximate their fair values because of the short maturity of these financial instruments.

##### (b) Credit risk

Our financial assets exposed to credit risk consist primarily of cash and cash equivalents, accounts receivable and restricted cash. Cash and cash equivalents and restricted cash are placed with major financial institutions.

##### (c) Interest rate risk

We are not exposed to significant interest rate risk due to the short-term maturity of our monetary current assets and current liabilities.

##### (d) Translation risk

We are exposed to foreign currency fluctuations to the extent expenditures incurred are not denominated in Canadian dollars. As at July 31, 2003, cash and cash equivalents included approximately \$19 (2002 - \$40; 2001 - \$400) denominated in U.S. funds and \$585 (2002 - \$260; 2001 - \$0) denominated in Brazilian funds.

#### 5. ACQUISITIONS

##### (a) Mineração Onça Puma Ltda.

On February 24, 2003, we acquired our 100% interest in the Onça-Puma property from Inco Limited ("Inco") in consideration of shares and warrants equal to 18% of our then issued capital. We issued Inco 4,727,674 common shares and 1,004,799 warrants with exercise prices ranging from \$1.50 to \$1.94 per share. Inco may only exercise such warrants in proportion to the number of certain other outstanding warrants which are exercised from time to time. Inco will be allowed to participate from time to time in future equity financings, in order to maintain its then current equity interest in our outstanding capital.

The above acquisition includes an Offtake Agreement, a Sales Agency Agreement and a Technical Services Agreement. The Offtake Agreement and Sales Agency Agreement provide for Inco to process and market all nickel matte produced from the Onça-Puma property and market any other product produced, (such as ferronickel), subject to certain conditions. The Technical Services Agreement provides for Inco to license its Inco Laterite Reduction Smelting Process for the Onça-Puma property and to make available necessary technical support for exploration, development and operation. Inco will also provide a limited process guarantee for the Inco Laterite Reduction Smelting Process. Inco will have a right of first refusal to acquire the Onça-Puma Property should we decide to sell the property.

The acquisition has been accounted for using the purchase method of accounting and the results of operations have been consolidated since the date of acquisition.

The purchase price allocation was as follows:

Purchase price	\$23,530
Fair market value of net assets acquired	
Mineral interests	23,530
Purchase price discrepancy	\$0
Consideration:	
Issuance of 4,727,674 common shares	\$20,801
Issuance of 1,004,799 warrants	2,729
	\$23,530

##### (b) Hastings Resource Corp.

As a result of the reverse takeover described in note 1, we acquired all of the outstanding common shares of Hastings. We consolidated our outstanding common shares at a ratio of 9.3 to 1 (resulting in 3,202,292 consolidated shares), increased our authorized capital to 100,000,000 common shares, and then issued one new consolidated share for each Hastings share issued and outstanding. Hastings' principals received 5.0 million of our consolidated shares in exchange for 5.0 million Hastings shares then issued and outstanding, 90% of which were escrowed with 40% (2 million consolidated shares) released upon the completion of the full acquisition of the Onça-Puma Property (note 5(a)) in February 2003. 625,000 consolidated shares are to be released on each anniversary of the acquisition completion for each of the next four years. In addition, an additional 803,322 Hastings shares issued for cash of \$1.94 (US \$1.25) per share before the merger were converted to 803,322 of our consolidated shares.

The purchase price allocation was as follows:

Purchase price	\$5,046
Fair market value of net assets acquired	
Cash	\$4,952
Marketable securities	114
Accounts receivable	16
Mineral interests	7
	5,089
Accounts payable	(43)
Purchase price discrepancy	\$0

Our operating results and cash flows for the 190 day period August 1, 2001 to February 6, 2002 (prior to the reverse takeover) with comparative figures for the six month period ended January 31, 2001 are as follows:

##### Statement of income

	2002	2001
Administration Expenses		
Reorganization costs	\$217	\$0
Management fees	97	32
Professional fees	48	37
Shareholders' information	22	12
Rent	12	12
Capital taxes	10	0
Transfer agent and listing fees	10	8
Office and miscellaneous	3	8
	419	109
Other Item		
Interest income and foreign exchange gain	112	153
Net Income (Loss) for Period	\$(307)	\$44

##### Statement of cash flows

	2002	2001
Operating Activities		
Net income (loss)	\$(307)	\$44
Changes in Non-Cash Working Capital		
Accounts receivable	(10)	0
Prepaid expenses	6	3
Accounts payable	0	(5)
	(4)	(2)
Cash Provided by (Used in) Operating Activities	(311)	42
Inflow (Outflow) of Cash	(311)	42
Cash and Cash Equivalents, Beginning of Period	5,263	5,204
Cash and Cash Equivalents, End of Period	\$4,952	\$5,246

## 6. CAPITAL ASSETS

	July 31, 2003		
	Cost	Accumulated Amortization	Net
Land	\$98	\$0	\$98
Buildings	92	2	90
Vehicles	179	30	149
Machinery and equipment	136	13	123
Computer hardware	141	29	112
Furniture and fixtures	43	6	37
Computer software	93	82	11
	\$782	\$162	\$620

	July 31, 2002		
	Cost	Accumulated Amortization	Net
Computer hardware	\$16	\$1	\$15
Furniture and fixtures	38	4	34
Computer software	74	21	53
	\$128	\$26	\$102

## 7. MINERAL INTERESTS

	July 31, 2003	July 31, 2002
Onça-Puma, Brazil (notes 5(a) and 7(a))	\$23,530	\$0
Fairview, British Columbia (note 7(b))	7	7
	\$23,537	\$7

### (a) Onça-Puma Property

The mineral rights to the Onça-Puma Property are represented by four applications for mining concessions filed with the National Department of Mineral Production ("DNPM") of Brazil. These four applications cover approximately 40,000 hectares. We completed the acquisition of these four applications by purchasing Mineração Onça Puma Ltda. from Inco (note 5(a)).

### (b) Fairview Property

We own a 100% interest in 10 mineral claims and 21 crown granted mineral claims located in the Osoyoos Mining Division, Oliver, British Columbia as well as one crown granted claim known as the Tenas fraction located in the Similkameen Mining Division of the Yale District, British Columbia.

## 8. CAPITAL STOCK

### (a) Authorized

100,000,000 Common shares without par value

### (b) Issued (post consolidation)

	Number of Shares	Amount
Balance, December 31, 2001	5,355,901	\$889
Issued pursuant to private placement for cash	447,421	868
Balance prior to acquisition (note 5(b))	5,803,322	1,757
Shares of accounting subsidiary acquired on reverse takeover (note 5(b))	3,202,292	0
	9,005,614	1,757
Adjustment to increase capital of accounting parent on reverse takeover	0	5,046
Balance after acquisition	9,005,614	6,803
Issued on exercise of stock options for cash	29,505	76
Balance, July 31, 2002	9,035,119	6,879
Issued for cash:		
On exercise of stock options	118,629	313
On exercise of agent options	397,892	597
On exercise of warrants	1,566,700	2,663
Pursuant to private placements	12,088,927	31,890
Issued pursuant to acquisition (note 5(a))	4,727,674	20,801
Share issue costs	0	(2,178)
Balance, July 31, 2003	27,934,941	\$60,965

(c) On June 6, 2001, and as amended by agreement dated September 14, 2001, Hastings appointed Research Capital Corporation and CIBC World Markets Inc. as agents in connection with a US \$3 million to US \$5 million private placement offering of Special Warrants from treasury. The Special Warrants were to be priced at US \$1.25 (Cdn \$1.94) per Special Warrant. Each Special Warrant was exercisable at any time after the issuance into one common share, at no additional cost to the holder. The agents were paid a cash commission of 6.5% of the gross proceeds of the Offering and granted an option to purchase the number of shares equal to up to ten percent (10%) of the aggregate number of Special Warrants sold by the agents under the Offering, without consideration, pursuant to certain conditions for a period of 6 to 24 months following closing of the issue of the respective Special Warrants. A total of 227,319 Special Warrants were issued pursuant to the Offering. The Offering was terminated on February 6, 2002 and the 227,319 Special Warrants issued were deemed exercised.

On February 6, 2002, we granted a total of 22,732 fully vested agent options to the agents at an exercise price of \$1.94 per share, which will expire February 6, 2004.

(d) On June 12, 2002, we filed a preliminary prospectus pursuant to which we planned to raise approximately \$35,000. We entered into an agreement with a syndicate of investment dealers led by BMO Nesbitt Burns Inc. and included Research Capital Corporation and Haywood Securities Inc. (the "Agents"), under which the Agents agreed on a best efforts basis to place our common shares through a prospectus offering. On July 23, 2002, we announced we had elected to defer the financing until market conditions improve. Costs incurred in preparation of the financing amounted to \$484 are included in share issue costs offset against capital stock pursuant to the prospectus offering described in note 8(e) below.

(e) On October 1, 2002, we issued 4,488,927 units at a price of \$1.50 per unit by way of a prospectus offering. A commission of \$0.09 per unit, being \$404, was paid to the Agents. Each unit consisted of one common share and one warrant. Each warrant entitled the holder to acquire one additional common share for a period of one year from the date of issue of the warrant, at a price of \$1.70 per common share. The Agents received 448,893 agent options exercisable for a period of 24 months from the closing of the offering exercisable at \$1.50 per common share.

On February 4, 2003, we issued 2,400,000 common shares at a price of \$3.31 per share in a non-brokered private placement. In addition, on February 13, 2003, we issued 5,200,000 common shares at a price of \$3.31 per share pursuant to an Underwriting Agreement with a syndicate of underwriters led by BMO Nesbitt Burns Inc. and Dundee Securities Corporation. A commission of 6%, being \$1,033, was paid to the underwriters.

In addition to underwriting costs of \$1,437, we incurred other share issuance costs of \$741 in connection with the three private placements completed during the year ended July 31, 2003.

(f) Stock option activity is summarized as follows:

	Number of Shares	Exercise Price Per Share	Weighted Average Exercise Price
Outstanding, December 31, 2001	0	\$0.00	\$0.00
Canico options	171,504	\$2.55-\$3.72	\$2.80
Granted during period			
following reverse takeover	530,000	\$2.55	\$2.55
Options exercised during period	(29,505)	\$2.55	\$2.55
Options expired during period	(62,106)	\$2.55-\$3.72	\$3.05
Outstanding, July 31, 2002	609,893	\$2.55-\$3.72	\$2.55
Granted during period	944,000	\$1.20-\$7.55	\$3.22
Options exercised during period	(118,629)	\$2.33-\$3.72	\$2.59
Options expired during period	(16,129)	\$2.55	\$2.55
Outstanding, July 31, 2003	1,419,135	\$1.20-\$7.55	\$3.00
Exercisable, July 31, 2003	969,135	\$1.20-\$7.55	\$2.97

The stock options outstanding at July 31, 2003 will expire between April 4, 2005 and June 26, 2013 and have a weighted average life of 9.0 years.

Stock options outstanding are as follows:

	Exercise Price	Number Outstanding at July 31 2003	Number Exercisable at July 31 2003
Expiry Date			
April 4, 2005	\$2.55	36,882	36,882
April 11, 2012	\$2.55	472,253	362,253
September 19, 2012	\$1.50	165,000	165,000
October 15, 2012	\$1.50	16,000	16,000
November 20, 2012	\$1.20	200,000	40,000
December 15, 2012	\$2.33	155,000	155,000
January 28, 2013	\$3.85	50,000	20,000
January 30, 2013	\$3.80	100,000	40,000
March 4, 2013	\$4.50	50,000	20,000
March 25, 2013	\$4.59	1,000	1,000
May 9, 2013	\$7.26	60,000	0
June 26, 2013	\$7.55	113,000	113,000
		1,419,135	969,135

Subsequent to July 31, 2003, \$32 was received on exercise of 12,500 options. In addition, 160,000 options expiring November 20, 2012 with an exercise price of \$1.20 were cancelled.

(g) Agents' stock option activity is summarized as follows:

	Number Of Shares	Exercise Price Per Share	Weighted Average Exercise Price
Outstanding, December 31, 2001			
and July 31, 2002	22,732	\$1.94	\$1.94
Granted during period	448,893	\$1.50	\$1.50
Options exercised during period	(397,892)	\$1.50	\$1.50
Outstanding, July 31, 2003	73,733	\$1.50 to \$1.94	\$1.64
Exercisable, July 31, 2003	73,733	\$1.50 to \$1.94	\$1.64

The agent options outstanding at July 31, 2003 will expire between February 6, 2004 and October 1, 2004 and have a weighted average life of 0.97 years.

Agent options outstanding are as follows:

	Exercise Price	Number Outstanding at July 31 2003	Number Exercisable at July 31 2003
Expiry Date			
February 6, 2004	\$1.94	22,732	22,732
October 1, 2004	\$1.50	51,001	51,001
		73,733	73,733

(h) Warrant activity is summarized as follows:

	Exercise Price Per Share	Weighted Average Exercise Price
Outstanding, July 31, 2002	0	\$0.00
Granted pursuant to private		
placements (note 8(e))	4,488,927	\$1.70
Granted pursuant to		
acquisition (note 5(a))	1,004,799	\$1.50 to \$1.94
Warrants exercised during period	(1,566,700)	\$1.70
Outstanding, July 31, 2003	3,927,026	\$1.50 to \$1.94

Warrants outstanding at July 31, 2003 will expire between October 1, 2003 and October 2, 2004 and have a weighted average life of 0.19 years.

Warrants outstanding are as follows:

	Exercise Price	Number Outstanding at July 31, 2003
Expiry Date		
October 1, 2003	\$1.70	2,922,227
October 2, 2003	\$1.70	915,877
February 7, 2004	\$1.94	4,990
October 2, 2004	\$1.50	83,932
		3,927,026

Subsequent to the year ended July 31, 2003, \$517 was received on exercise of 304,400 warrants.

(i) Escrow shares

As at July 31, 2003, 2,500,000 shares are held in escrow (note 5(b)).

## 9. STOCK-BASED COMPENSATION

We apply the intrinsic method in accounting for stock options granted to employees, and accordingly, no compensation expense is recorded in these financial statements. Had compensation expense been determined as provided in the fair value method using the Black-Scholes options pricing model, the pro-forma effect on our net loss and per share amounts would have been as follows:

	July 31, 2003	July 31, December 31, 2002 2001
Net loss, as reported	\$(8,347)	\$(1,940)
Stock-based compensation		
determined under fair value based		
method for all awards	(1,376)	(431)
Net loss, pro-forma	\$(9,723)	\$(2,371)
Net loss per share, as reported	\$(0.44)	\$(0.23)
Net loss per share, pro-forma	\$(0.52)	\$(0.28)

We apply the fair value method in accounting for options granted to non-employees. During the seven month period ended July 31, 2002, we repriced 69,140 options granted to non-employees from \$3.53 and \$3.72 per common share to \$2.55. As a result, the options are treated as cancelled and re-issued for stock-based compensation

purposes, resulting in additional compensation expenses of \$19 recognized as salaries expense and adjusted to contributed surplus.

For the year ended July 31, 2003, the estimated fair value of each option on the date of grant using the Black-Scholes option-pricing model is calculated by applying the following assumptions:

Expected dividend yield	0%
Expected stock price volatility	65%
Risk-free interest rate	3%
Expected life of options	3 years

#### 10. RELATED PARTY TRANSACTIONS

- (a) On August 1, 2001, J. Michael Kenyon, a principal, director and senior officer advanced \$50 on an interest free basis. This advance was repaid in its entirety on January 16, 2002.
- (b) On August 27, 2001, R. Shklanka, a principal, director and senior officer advanced \$25 on an interest free basis. This advance was repaid in its entirety on January 16, 2002.
- (c) Our former Vice-President, Corporate Development resigned effective April 30, 2002 and was entitled to receive a termination payment of \$225. The former officer continued as a director until February 24, 2003, at which time he resigned as a director. During the year ended July 31, 2003, we paid \$0 (2002 - \$30; 2001 - \$0) for management and professional fees to a company controlled by the former officer and director.

#### 11. INCOME TAX LOSSES

	July 31, 2003	July 31, 2002
Future income tax asset		
Non-capital loss carryforwards	\$2,495	\$1,989
Excess of undepreciated capital cost over net book value of fixed assets	42	18
Unused cumulative Canadian exploration expenses	280	280
Unused cumulative Canadian development expenses	400	400
Unused cumulative foreign exploration and development expenses	6,755	4,037
	9,972	6,724
Less: Valuation allowance	(9,972)	(6,724)
	\$0	\$0

The valuation allowance reflects our estimate that the tax assets, more likely than not will not be realized.

Unused cumulative foreign exploration of \$2,033 expires between 5 to 10 years. The remainder of the Canadian exploration, Canadian development and foreign exploration can be carried forward indefinitely.

We have available approximate non-capital losses which may be carried forward to apply against future income for Canadian tax purposes. The losses expire as follows:

Available to	Amount
2004	\$634
2005	622
2006	757
2007	1,189
2008	34
2009	1,276
2010	1,785
	\$6,297

The benefit of these losses has not been recorded in these financial statements.

#### 12. SUPPLEMENTAL CASH FLOW INFORMATION

	July 31, 2003	July 31, December 31, 2002	2001
Interest received in cash	\$419	\$42	\$2
Cash paid income taxes	\$0	\$0	\$0
Non-cash acquisition of mineral interest	\$23,530	\$0	\$0
Reduction of contributed surplus from exercise of stock options	\$6	\$0	\$0

#### 13. COMMITMENTS

- (a) Under the terms of an office premises lease entered into in 2002, we are committed to annual lease payments of approximately \$71 plus operating costs for each of the first four years and \$81 plus operating costs for each of the next two years. Pursuant to the lease agreement, we transferred \$100 to a term deposit as a guarantee for the lease for a period of two years.
- b) During the period ended July 31, 2003, we entered into a financial advisory agreement with a Canadian brokerage firm. We are committed to paying a fee of \$400, payable in monthly installments of \$40, commencing June 1, 2003.
- c) During the period ended July 31, 2003, we entered into an agreement with an engineering firm to carry out metallurgy test work. We are committed to paying a fee of NOK (Norwegian Kroner) 7,000 (C\$1.00 = NOK 5.00), of which NOK 3,500 is due when the test work begins and NOK 3,500 upon completion of the test and delivery of a final report. The expected completion date is January 31, 2004. Up until October 1, 2003, we can cancel the agreement by paying a cancellation fee of NOK 1,500.

#### 14. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (CANADIAN GAAP AND U.S. GAAP)

##### a) U.S. accounting pronouncements

In December 2002, FASB issued SFAS 148, "Accounting for Stock-based Compensation - Transition and Disclosure, an amendment to SFAS 123". SFAS 148 provides two additional transition methods for entities that adopt the preferable methods of accounting for stock-based compensation. Further, the statement requires disclosure of comparable information for all companies regardless of whether, when, or how an entity adopts the preferable, fair value method of accounting. These disclosures are now required for interim periods in addition to the traditional annual disclosure. The amendments to the disclosure requirements are required for financial reports containing condensed financial statements for interim periods beginning after December 15, 2002.

##### b) Cash and cash equivalents

Under Canadian GAAP, short-term deposits with a maturity of less than one year can be considered a cash equivalent. Under U.S. GAAP, only short-term deposits with a maturity of less than three months can be considered a cash equivalent and cash would be shown as follows:

	July 31, 2003	July 31, 2002
Cash and cash equivalents	\$1,877	\$3,867
Short-term investments	\$27,416	\$0



[www.canico.com](http://www.canico.com)